Pierre Quesnay (1897-1937) and the Poincaré stabilization

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Abstract

In a 1958 article, Pierre Dieterlen refers to a “triumvirate” in order to qualify the team formed in France during the Poincaré stabilization by Emile Moreau, Governor of the Banque de France (BDF), Charles Rist, Professor at La Sorbonne and Deputy-Governor and Pierre Quesnay, his former PhD student, Head of the Department of the Economic Studies and Chief Adviser of the BDF. Pierre Quesnay is the youngest of the trio and has been quite neglected by the historians until the recent paper of Olivier Feiertag (2009) on the Monetary Internationalism during the Inter-War period. From the end of the war in 1918 until 1937, the short life of Pierre Quesnay is fully concerned by the monetary disorders generated by the suspension of the Gold Standard, the difficulties to find alternative monetary solutions, and the management of the monetary consequences of the Great Depression. Building on the Quesnay’s papers of the Archives Nationales, the purpose of this paper is to evaluate the effective contribution of the young money doctor to the monetary stabilization process of the interwar period.

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1 Introduction

In a 1958 article, Pierre Dieterlen refers to a “triumvirate” in order to qualify the team formed in France during the Poincaré stabilization by Emile Moreau, Governor of the Banque de France (BDF), Charles Rist, Professor at La Sorbonne and Deputy-Governor and Pierre Quesnay, his former PhD student, Head of the Department of the Economic Studies and Chief Adviser of the BDF. Pierre Quesnay is the youngest of the trio and has

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been quite neglected by the historians until the recent paper of Olivier Feiertag (2009) on the Monetary Internationalism during the Inter-War period. From the end of the war in 1918, the short life of Pierre Quesnay (he was born in 1895 and died in 1937) is fully concerned by the monetary disorders generated by the suspension of the Gold Standard, the difficulties to find alternative monetary solutions, and the management of the monetary consequences of the Great Depression.

This preliminary paper exploits the private Quesnay Archives which are now at the French National Archives. Our objective is to evaluate the effective contribution of the young “money doctor”\(^1\) to the monetary stabilization in France during the interwar period. The paper uses for the moment only the documents relative to the 1926-1928 period\(^2\). We cross these papers with other more public texts and testimonies, especially Emile Moreau memories. From this exam, we try to estimate the precise nature of the contribution to Quesnay to the 1926 French stabilization, the type of influences he integrates to its own monetary analyses and propositions during this period as Economic Adviser of the Banque de France, and the place of these propositions in the final decisions of the Banque de France and Poincaré administration.

The rest of the paper is structured as follows. Section 2 presents the personality of Quesnay, the conditions of his integration in the Moreau team, and the type of influence he exerts on the Poincaré stabilization decisions. Section 3 analyses his role in the stabilization, in the adoption by French monetary policy of technical devices already in use in US and UK, and in the definition of a role of a modern Central Bank. Section 4 concludes by a discussion of the nature of the balance between nationalism and internationalism in Quesnay monetary views during his Banque de France years.

2 Emile Moreau administration and Pierre Quesnay

2.1 The first days of the triumvirate

Under Governor Georges Pallain, who was still in charge of Banque de France in the after-war, the return to Gold was considered as a middle term objective for the French Central Bankers: the difficulties of United Kingdom to restate the pre-war definition of the sterling however made progressively the Bankers less enthusiast. The objective was maintained under the relatively short term of Georges Robineau from 1920 to 1926. The French franc had nevertheless suffered from the necessity to finance the war, partly by advances from Banque de France to the Treasury. After the war, the choice of inflation against recession and unemployment transformed progressively the external value

\(^{1}\)following the expression used by Eichengreen and Flandreau for the Central Banks economic advisers involved during the twenties or the early thirties in many national stabilization experiences, outside their native countries. Before Eichengreen and Flandreau (see Flandreau, 2003), the expression was formerly associated to William Kemmerer.

\(^{2}\)In a second phase, we will also exploit the Archive papers from 1919 to 1926, period in which Quesnay had a first experience of expert and adviser of the League of Nations in Vienna, especially devoted to the after-war economic recovery in Austria and Hungary.
of the French franc in an adjustment variable submitted to a differed stabilization. In this period as in other ones, “the inflationary strategy is a long term strategy located in extended geographical space: it is a transfer strategy which fits or is no longer promoted when it leaves any efficiency. The stabilization option which imposes in 1926 closes this period” (Debeir, 1980, p. 624).

2.2 Moreau, Rist and Quesnay

The decision to stabilize was only the last step of a sinuous process. From 1919 to 1926, while the politicians are generally reluctant to all sort of monetary restriction which would have reduced growth and increased unemployment, the advocates of monetary orthodoxy of a return to gold recurrently recommend to deflate sharply to restore the pre-war gold-content of the French franc. In 1919, France is one of the economies the more affected by the 1914-1918 war. French franc has been made inconvertible and inflation has progressively moved the French franc / US dollar or the French franc / UK sterling exchange rates far from their pre-war levels. Inflation maintains high and increasing during the 1919-1920 period when French economy recovers a positive rate of growth of GDP. With the fiscal efforts made with Frédéric François-Marsal as Finance Minister from 1920, then with the effects of the 1921 crisis, prices begin to deflate and the objective to recover the pre-war gold content of French franc makes a come-back in the French opinion. But a strong recession is the companion of this deflation: from 1922, the dominant opinion is then generally to choose growth and employment against deflation. The results are rather positive in nominal terms but while growth accelerates with a moderate inflation until 1925, French GDP stops its progression in 1925-1926 whereas France experiments a simultaneous pick of inflation. It is time to consider a new monetary (and fiscal?) policy which would promote nominal stabilization without cutting growth - and if possible avoiding instability.

Charles Rist, and Pierre Quesnay, his previous student at La Sorbonne are convinced that if stabilization was necessary, it has to be realized without deflating. The conception of Rist and Quesnay integrates Banque de France when Emile Moreau in nominated Governor in 1926. Charles Rist becomes Deputy-Governor while Pierre Quesnay integrates the team, first as cabinet director of Emile Moreau, then as economic adviser. Few months after, with the comeback of Poincaré, Moreau progressively imposes his style, a mix of intuition, an extreme cautiousness, but also a capacity to make the right decision, frequently after he has been himself convinced by Rist and Quesnay that his own initial views were wrong. In the first months, under the influence of Rist and Quesnay, Moreau progressively convinces politicians that the good solution is to stabilize without deflating: a new gold-content (and external exchange rate in sterling and dollar) is chosen for the French franc, after an official devaluation of the old Germinal definition of the French currency.
2.3 Pierre Quesnay, from the League of Nations to the franc Poincaré

Pierre Quesnay was born in 1895 in Evreux. He studies Law at the Sorbonne faculty where he is introduced to “monetary facts” by Charles Rist, himself then just nominated. After being involved in the First World War, he has his first experiences in Vienna and Budapest first as a member of the commission for the Austrian supplying and since 1920 as a member of the inter-allies reparations commission. From 1922 to 1925, the career of Pierre Quesnay as a young money adviser really starts when, on the behalf of the League of the Nations, he comes in charge of the financial reconstruction of Austria. It is also during that period that Quesnay meets international monetary experts like Montagu Norman, the Governor of the bank of England, but also Jean Monnet who will also integrate the Bank de France under Moreau term. As expert of the League of nations, he also occupies for few months a position in Geneva, at the economic and financial department, which also contributed to develop his international network (see Mouré, 1998, and Feiertag, 2004).

On June 25th 1926, when Moreau is designated by Caillaux to succeed Robineau as the Governor of the Banque de France, he chooses the same day as his Second Deputy 3 Charles Rist, who is like him a member of the experts committee for the financial and monetary reform. Rist is probably at the origin of the choice of Quesnay but Moreau mentions on July 7th the cooperative attitude of “M. Avenol, Assistant Secretary of the League of Nations, that I know long time, accepts my request, to free for me M. Quesnay, his best collaborator, as my chief of staff during two months” (Moreaux, 1954, p. 19). Quesnay and Moreau meet for the first time on July 11th 4. He will then be the first Head of the Department of Economic Studies newly created at the Banque de France. During that period, Moreau, Rist and Quesnay will always interact closely. When Poincaré rapidly succeeds both Briand as Président du Conseil and Caillaux as Finance Ministry, the trio want to convince Poincaré about the necessity to adopt the plan of stabilization proposed by le Comité des Experts. Rapidly, a second debate starts concerning the question of the determination of an exchange rate for stabilization. The main and the more innovative initiatives of the trio are from Quesnay. Dieterlen and Feiertag have already reproduced the way Quesnay comments his role during this period: “J’ai les idées, Rist les filtre et Moreau tape du poing sur la table pour les faire aboutir” (Dieterlen, 1955, Feiertag, 2004, p. 948, p. 337).

We focus in the next pages on the contributions of Quesnay on the Poincaré stabilization, as the main advocate inside the Banque de France of the innovative positions of Benjamin Strong, the experimented Governor of the Federal Reserve Bank of new-York; we also develop other fundamental contributions of Quesnay as his role on the rate of stabilization, on the new Banque de France practices on external exchange or internal

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3Moreau promotes indeed the previous second Deputy Governor Omar James Leclerc, “in whom he is fully confident” (Moreau, 1954, p.3.

4Moreau explains that during this discussion, “Quesnay comments extensively the secrete intentions of M. Montagu Norman who would have imperialist views on European Central Banks” (Moreau, 1954, p.24.)
money markets. His role inside the banque must not be neglected. During the relatively short time he spends at Banque de France, as Head economic studies department, Quesnay initiates a deep reform of this department, is a member of the French delegation preparing the Young Plan and thereafter, also becomes a member of the committee in charge of proposing the definitive status of the Bank of International Settlements (BIS). In 1930, the BIS is created and Quesnay is nominated as its director. His international career officially then continues (see Freiertag, 2004), less dominated by the strictly national objectives of the Banque de France environment.

2.4 The stabilization process

Quesnay plays an important role in the stabilization process. He appears as a good economist but also a skillful technician. His analysis of the various factors which may contribute to the determination of the rate of exchange and his conclusion about the relevant interval can be considered as a proof of his technical competence as well as of his sense for economics. Quesnay plays also a specific role through his international network. Indeed, his first important position was Austria where he already tested his method for monetary stabilization. One should also not neglect that, such a position was also an opportunity to meet people who, like him, will later get strategic international positions. The Comité des experts devoted to evaluate the monetary and financial situation and to propose solutions in order to stabilize the franc diffuses its reports on July 4th 1926, just before the official integration of Quesnay in the team. But these conclusions are not unknown from Quesnay who has served as secretary of the Committee. More than a pure stabilization process, the report is a clear attack against the policy (or the absence of policy) of the Banque de France under Robineau and The previous first Deputy-Governor and Chief Economist Aupetit. The report points out that one could not expect any efficient intervention from the Banque de France before a deep financial and monetary reform would be implemented.

If Poincaré was aware about the Committee position, his own strategy was much more influenced by political pressure. Then, if he agreed on the necessity to come back quickly to the gold system and he also admitted - thanks to the persuasion of Moreau - that the franc may have to find a new parity, he was nevertheless not keen to sign any agreement concerning the debt of France. Tension between Poincaré and Moreau was then evident. Nevertheless, Poincaré promoted on August 7th a law giving to the Banque de France the right to sell and buy currencies, as well as gold, directly on the market without being limited by the circulating amount of money. As we will see, this law is largely the result of the interactions between Benjamin Strong and the Banque de France, mediated by Quesnay, and of the persuasion of Quesnay inside the Bank.

2.5 The growing influence of Pierre Quesnay

Quesnay was in charge of concrete proposition / agenda for the stabilization. His idea was that such a process should be developed through three distinct periods. First of all, France would need a period of pre-stabilization during which Banque de France would

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5Established on May 17th 1930, the BIS is the world’s oldest international financial organization.
intervene in order to maintain the franc within a given interval. Then, a *de facto* stabilization would intervene, in which the rate of exchange would have been identified and the *Banque de France* would sell and buy external currencies at fixed rates. The last period or *de jure* stabilization would be concerned by the legal environment, a legal gold definition of French franc being defined together with its fixed rate of conversion in sterling and dollar.

Finally, the effective stabilization merged the two initial periods, the pre-stabilization and *de facto* stabilization periods. After 18 months, Poincaré still wants that the Franc could stabilize at a high value while Moreau would have preferred to follow strictly the plan formulated by the committee. However, as it is emphasized by Mouré (1991, p. 71), Poincaré has learned how much he could benefit from stabilization *de facto* and Moreau is forced to admit that stabilization does not need international commercial credits in order to be effective. Poincaré who was initially in favor of a deflating and turning to the pre-war parity of the franc never really diffuses his opinion. On the other side, Quesnay never expresses publicly his deep desire to stabilize the franc around a rather low level, in order to avoid as much as possible the negative impact of a fully expected low rate of stabilization.

After the *de facto* stabilization period, then comes the *de jure* stabilization stage. A new tension then appears among Central Bankers and politics. If Poincaré can easily see the benefits of the *de facto* stabilization, the success of the *de jure* chapter is deeply rooted in the relevance and efficiency of the monetary and financial reform. The objective of this reform is to avoid the threat of a new franc devaluation. Perhaps with some irony, this creates a political issue: the problem lies in the fact that if Poincaré manages to maintain a minimum degree of solidarity or union within his government and inside the Parliament, it is only because his personality is at that time the main guarantee against a new devaluation. If the devaluation ceases to be seen as an (immediate) danger, coalition has no more justification. But the pressure coming from both the *Banque de France* and the industrial sector is really important and finally efficient. The monetary reform is nevertheless voted on June 25th 1927 with a large majority.

3 Pierre Quesnay and the new French way of managing convertibility

The trio constituted by Moreau, Rist and Quesnay is only in charge since few weeks when important decisions are already to be taken. During summer 1926, the visit in Paris of Benjamin Strong, the Governor of the Federal Reserve of New-York is not only the first moment for the team to be accepted in the expert and influent circle of those who take the main macroeconomic decisions in the world, but more simply to choice the relevant options for the future French stabilization and convertibility management. Retrospectively, Quesnay appears to have the more advanced position, adapting the views of Benjamin Strong to the French realities and convincing, months after months the other members of the team to the solutions that he has imagined in the first months, after the
summer 1926 discussions with Strong.

3.1 Benjamin Strong and Pierre Quesnay

During the summer 1926, Benjamin Strong spends quite two months in Europe, mainly in France, a three weeks break in mid-August surrounded by weeks of meetings with French partners and of visits, among other to Vissering in Amsterdam, to Schacht at Berlin and to Normann at London. Strong seems astonishingly concerned by the Banque de France project of stabilization. His experience (he is in charge since 1916 as Governor of the Federal Reserve Bank of New-York) but also his personality put him in the position of a super-advisor for the French team, all the members of which having less that three months of service as managers of one of the world major central bank. Pierre Quesnay is particularly impressed by the experience of Strong and his capacity to delineate the main features able to determine the success of the undertaken stabilization. Three necessary conditions are immediately pointed out by Strong to make a successful stabilization: (i) the Bank de France must be independent from government and fiscal policy; (ii) the Bank must intervene on the external exchange market not only to adjust the level of its reserves at the level required by the need of internal circulation but also to control the nominal exchange rate on the free market; (iii) the Bank must take the control of the money market to be the main partner of commercial banks in the domestic credit market.

During the 31st July meeting at Chatham hotel, he develops each point more precisely. For instance, the managers of the Bank de France must not be easily fired: if a condition of this nature is legally introduced, Strong considers that French franc will instantaneously appreciate when expressed in sterling. Strong also precise the way la Banque de France must control in the future the French external exchange market: “it should be necessary to issue French franc as a counterpart of external currency, even beyond the legal ceiling” (2615, Travaux du Comité des Experts, 1926-1927). This is in the same time a way to support the future regime of convertibility and a management tool for the future external rate of exchange.

Strong is particularly even insistent on the question of the discount policy and more generally on the Banque de France interventions on the money market: “greater is the discount portfolio, smaller are the price changes needed for an intervention of the Bank on the market” (2651, Conversations avec M.Strong, du samedi 28 août 1926). He comments the pre-war discount policy of the Banque de France arguing that their fixed rate of discount policy generated at this moment a tendency for the banks to constitute a portfolio in London or Berlin. that they used to adjust their positions when the conditions on the money market in France. This possibility was caused by the impossibility for Banque de France to hold its own portfolio which the Banque

On August 31th, a new meeting is organized between Moreau and Strong. This last gives to Moreau assurances on the potentiality of Banque de France to obtain the payment a of $150 million loan from the US government, with the complement of $50 million more from the European markets. This long term loan could be completed by a short term one of the same amount from the US government and a consortium of private banks.
Strong has also prepared a note synthesizing his major recommendations for the French stabilization. Moreau memories and Quesnay’s notes contrast on the initiative and the interpretation of this note. Moreau relates the episode in a very neutral way: “M. Strong gave me a note summarizing the main points of our exchange: full independence of the Banque de France, which is a condition for the continuity of the our stabilization policy; measures for preventing the dangers of the floating debt, end of the issuing of monetary paper for the government, new control of the money market by the Bank, though the mobilization of the government debt...” (Moreau, 1954, p. 92). The document is confirmed by a memorandum sent by Strong himself from London. The memorandum enumerates 16 dispositions to be followed by the monetary authorities and government for the franc restoration. These dispositions can be summarized in 4 subjects: (i) the Bank must be independent and all structural / financial links with the government must be cut, (ii) the convertibility must be managed by the use of modern devices able to control the inter-bank and exchange markets, (iii) a stricter orthodoxy must be promoted for budget and tax policies, (iv) international cooperation must be developed between central banks.

A new phase of correspondence between Strong and Banque de France begins in Spring 1927. At this stage, the financial inflows are already important, from Germany and overall from UK to France. the British Pound is in danger. Strong no longer encourages Banque de France to stabilize but rather to relax the pressure on the London market. Strong suggests to reduce domestic interest rates or to sell French public bonds in open-market operations in order to reduce the upwards pressure on French franc. Rapidly, in his mailing exchanges with Moreau, Strong proposes to host the French team in the next summer.

In July 1927, when Banque de France administration continues to purchase external currency, Strong suggests to French partners to decrease discount rate to sustain economic activity, and - even if he does not develop the motive - to reduce the speculation on French franc (Conversations from 1 to 7 July 1927 in New York and Washington between Strong, Norman, Schacht and Rist,...)

Benjamin Strong health deteriorates rapidly in 1927. In Spring he refers to a stay in the South of Spain (Algeciras) and French Riviera in November. In a letter to Moreau dated from August 30th, he now mentions January and February. His direct influence on the French plans then reduces as he is obliged to manage breaks in his activity and to delegate a part of his tasks and representations. Strong will just have time to observe the first effects of the official French stabilization of the French franc on June 1928 before his death in October.

3.2 Independence and discipline

During the discussions of summer 1926, Strong repeatedly exhorts the French Central Bankers to acquire a entire independence from the government policy (see for instance Quesnay report of the July 20th meeting at Moreau home at Versailles). The content of this independence is however not really what we nowadays mean using this term. The objective is mainly to prevent all temptation for government to ask advances from the Bank, to find a solution for the existing debt of the Treasury to the Bank and even to
eliminate all possibility for Treasury to obtain an credit account near Banque de France.

Strong then proposes rapidly to mobilize government claims by issuing public bonds. These emissions should free the Bank from any link with the Government but they can also “absorb liquidity” and thereby create deflationist pressures (2650, Conversations avec M.Strong, du samedi 28 août 1926).

It is interesting to report an exchange between Adolphe Landry and Pierre Quesnay on the question of the management of the Advances from Banque de France to the Government. Landry considers that the ... and the country have nothing to win from the settlements of the government position near the bank. The measure would generate deflationist (and recessionist) forces while the Bank would lose the interests paid by the government. The answer of Quesnay is that “reducing the government debt to the Bank is an necessary measure to recover a sound money. Refunding the loan does not implies automatically a harsh deflation and a complete re-evaluation: the objective of the measure is overall to give back to Banque de France the liquidity that it have before these advances, in order to obtain additional ways of control currency into circulation” (4710, Réponse à un article de M. Landry dans l’Information).

A law from August 7th 1927 creates an autonomous entity, labeled Caisse autonome de gestion des bons de la défense nationale to manage the Bons de la défense nationale and circulating Bons du trésor and to receive the benefit from the taxes on tobacco to redeem progressively the Bons de la défense nationale at maturity. The Caisse autonome will have to power to determine the rate of interest of the newly issued Bons de la défense nationale and the level of taxes on tobacco.

Quesnay, under the supervision of Rist and Moreau, however imagine to generalize the principle of independence of the Bank from government. He then conceives in August 1926 a “convention between the State and Banque de France to apply the program of monetary stabilization”. The first article of the program, written by Quesnay, indicates that Banque de France “is in charge of the operations of stabilization. As a consequence, it takes the responsibility of the national monetary policy” (2722, Eléments d’une convention entre l’Etat et la Banque Centrale pour l’exécution du programme de stabilisation monétaire). He requires the “possibility to work in continuity”. The government “renounces during the stabilization period to use freely of its right to modify the managing staff of the Bank: the Governor and the two Deputies-Governors” will be irremovable during a minimum of three years. The third article indicates that the level of stabilization will be decided by agreement between the Bank and the government. Given the expertise Rist and Quesnay, compared with the ignorance of monetary and macroeconomics mechanisms of Poincaré and his staff, no doubt that with this article, Rist and Quesnay will finally decide if the level of stabilization. After more technical developments, Quesnay introduces also in the article 11 the following specifications “During all the stabilization period, the government commits to raise to new loan, except to consolidate its existing debts. As a consequence, the Treasury Bonds and public debt ceiling will be determined

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6The international experience of Quesnay appears in the exerts that he uses in the draft to quote other national conventions (of Germany, Hungary, Czechoslovakia, Finland...)
Although Quesnay and Rist agree to defend the independence of the Banque de France, Quesnay seems however having progressively developed a more extremist position than its older teacher. In January 1928, Moreau then reports that, according to Quesnay, “Rist considers leaving the Banque de France in next August. M. Rist does not approve that the advances to the Bank would be refunded to the Bank, and unfortunately, he developed this thesis in writing documents. He does not want any deflation. And he considers that my policy [Moreau writes] is in opposition with all that he taught himself at the Faculty of Law. The reality should however prove that the Bank can be redeemed without any deflation” (Moreau, 1954, p. 466).

3.3 How to stabilize?

In a text untitled Le Crédit de la France written in 1926, Quesnay presents three possible plans of stabilization. The second is the easier to manage: France will stabilize at its current market level or close to it. Convertibility will be restored for external transactions and new gold coins stamped. We will present in section 4 the third method. The first one is probably hard to manage - it will not be chosen by Moreau and the politics - but it is to be mentioned because of its originality. This stabilization process would involve the parallel circulation of two currencies, the “old” or ”traditional” and the “depreciated” franc. This introduction of new francs in the circulation would be realized by issuing new bonds denominated in pre-war currency (le franc-or) defined by its pre-war weight of gold. The franc-papier, i.e. the depreciated franc would continue to circulate until its stabilization. At this moment, a rate of conversion will be defined between the franc-or and the previous franc-papier. The later having also a gold content (Quesnay takes an example and supposes that it could be 7 times smaller than the content of the franc Germinal, prices could be labeled equally in the two franc, with a stable rate between them. The final objective of the operation would be to introduce a sort of nouveau franc consisting in the old franc Germinal consisting in dividing by seven all current prices expressed in the newly stabilized franc (previous franc-papier). The system will be applied in France in 1960 with the switch from the ancien franc to the nouveau franc or franc lourd under the initiative of Antoine Pinay and Jacques Rueff.

3.4 At which level to stabilize?

During the autumn 1926, Quesnay discusses the level of stabilization. The basis assumption of the exercise is that no reevaluation would be targeted but that the rate of exchange chosen as a long term reference (the fixed exchange rates regime was supposed to maintain stable for a long period). this long term objective motivates for Quesnay an analysis in which many - sometimes contradictory - elements are considered. Quesnay begins by “budget considerations”: this first evaluation considers diverse scenarios relative to the amount of GDP and considers the rate of exchange between the French franc and the UK sterling that would maintain the pre-war proportion of 13.3% between public

\[^{7}\text{In 1963, nouveau will be skipped from the official appellation of the French franc.}\]
expenses and GDP. The second estimation takes as hypothesis that the Bank is obliged to maintain a legal proportion between the amount of its reserves and the money into circulation. The third estimation is obtained after calculating the increase of monetary circulation which could result from the enhanced gold reserves of Banque de France after the return to gold. The liquidity then made available must not generate inflationary pressures: an exchange (or a range of variation of possible exchange) rate if the French franc is considered on this level. The last estimation is then linked to external considerations and should maintain domestic prices at their international level. Quesnay ends up by providing an average value that he considers between 160 and 170 French francs / UK sterling.

During the end of 1926, the floating exchange rate of the French francs however begins to appreciate and moves in few months from more than 200 to 120 francs / UK sterling. The debate then continues on the opportunity to stabilize the franc at a depreciated level or to stimulate market forces to make possible a stabilization at the pre-war level or close to it. In a manuscript included in the personal documents of Quesnay, Georges Lacout, a specialist of the British stabilization 8: “a stabilization decision which would place instantaneously French prices at the level of world prices […] would most likely fail. It is essential to set rate of exchange of the Pound at such a level as there it could maintain some delay between the moment of the stabilization and the moment where French price will reach world prices” (“Le retour à la monnaie saine”, 4677, Études générales, notes diverses…).

With such a market appreciation of the franc, the estimations of Quesnay are now without interest. It is no more reasonable to imagine a rate of conversion around 165 francs / UK sterling. On January 15th 1927, Charles Rist then signs a internal note entitled Différences au point de vue des facilités techniques d’une stabilisation, du choix du cours de 125 ou de 150 à la Livre. (4691 and following, Études générales, notes diverses…). The debate will develop during all the year 1927 and a part of 1928. Finally, the Loi monétaire is published on June 25th 1928 and the franc is stabilized at £124.21.

### 3.5 Interventions on the external exchange market to control the rate of exchange...

The comments of the 1926 Loi concernant des opérations en vue de la stabilisation de la monnaie by Quesnay show that, already on August 11th of the same year, just after the first part of the summer exchanges with Strong in Paris, he already intends to use the future purchases of dollars and sterling to facilitate the intervention of the Banque de France on the external exchange market. On August 4th 1926, has already noted that

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8Georges Lacout published in 1926 a book entitled Le retour à l’étalon-or. La politique de l’Angleterre (1914-1926) seems to express a, d rationalize the opinion of Quesnay. His book presents a “vigorous attack against the English policy. From his views, the return to gold was too rapidly concluded by UK in 1925 and the running conditions of the new monetary regime seem to him artificial” (Report ou Le retour à l’étalon-or. La politique de l’Angleterre (1914-1926) in Revue de Sciences et de législation financière, 1926, p 748)
the bank will be authorized by a special law to buy gold and convertible currency against notes which will not be included in the usual limit of issuance [...] When the law will be adopted, Banque de France will have, to intervene on the market, quite an unlimited reserve of francs; this reserve will allow to absorb, in case of necessity, all excess of external currency on the market and, thereby, to control the exchange rate market, when the tendency will be an external appreciation of the French franc 2725, Loi concernant des opérations en vue de la stabilisation de la monnaie.

In 1927, when the Loi concernant des opérations en vue de la stabilisation de la monnaie is up to be adopted, Quesnay writes that “the law supposes that the convertible currencies - dollar and sterling - of Banque de France will be bought without the possibility to be resold. Now, in the spirit of the legislator, the Bank of France would have the difficult task of controlling the exchange market, which involve intermittent interventions. One could, with some margins, have to sell the notes previously acquired and reciprocally” (4647, Note sur l’article 3 de la Loi concernant des opérations en vue de la stabilisation de la monnaie, August 11th 1927). On August 26th, in a note on the Organisation à la Banque de France de dépôts d’or et de devises, he also develops the idea that the external currency deposits could be accepted near Banque de France and remunerated at a rate of interest fixed by it, while it is not legally possible for Banque de France to remunerate deposits in domestic currency since Banque de France is not a commercial bank.

On November 4th 1926, Quesnay writes a new report synthesizing the purchases of foreign currency by Banque de France since July. These movements begin to be active and regular. Some months after, in June 2nd 1927, Quesnay continues to comment the purchases of English Pounds which have accelerated during the first part of the year. He he still obliged to explain to Moreau that “there is nothing alarming in itself. A bank of Issue may continue its purchases of gold without limit, as has proved the Federal Reserve Bank” (4236, Moreau to Strong, June 2nd, 1927). These movements finally slow down when begins to diffuse the idea that the French franc will be stabilized not at the current market rate but at a calculated rate that could be around £120.

3.6 ... or to avoid any over-evaluation of the French franc

As the Pound depreciates in 1927, it is necessary for Quesnay, Moreau and Rist to prevent any over-evaluation of the franc which would have contained the seed of a future depression / recession: “Faced to the supply of foreign Currency, we wish to control international speculation on French franc. To that end, we sale sterling against dollars in order to avoid our balances in London serve to the use of European countries” (4283, Cable from Banque de France to Federal Reserve Bank of new-York, Mat 16th 1927. In a cable of May 17th to Harrison, Moreau is obliged to concede that “gold purchases that take place at this time require the Bank to grow its stock of foreign currency to a point that creates some concerns here” (4277, letter to Harrison, commenting a cable of May 16th). Without the new Banque de France discretionary movements on the external market, the stabilization would have probably failed. But they also create a gold drain from London to Paris and will generate with the beginning of the Great Depression non-cooperative behavior, then without the perspicacity of Quesnay, with new responsi-
abilities at BIS when his intellectual adaptability would have been useful in these new and dramatic circumstances.

3.7 Quesnay and Rist

Charles Rist had the pragmatism to choose a stabilization at a depreciated level instead of deflation. He also developed a propensity to defend low rates of interest, as the old French radical he was. His monetary conceptions were however complex and sometimes not so academic when considered with our modern glasses: despite he was a great supporter of Tooke conceptions that he discussed and popularized in his Handbook of History of Monetary Thought, he was also, in opposition with Keynes, Cassel or Aftalion one of major supporter of the return to Gold in Europe, with or without pre-war parities. He expressed these views in front of Strong, Norman and Schacht during the famous July 1927 discussions between the 4 governors / deputy-governors of the four main Central Banks: “Bank of France is convinced that the Gold Exchange Standard - i.e. a system in which reserves are maintained abroad under the form of external currency, - the same Gold amount serving as the counterpart to issue the equivalent of two times its value in two different countries - can only be a temporary expedient. The Gold Standard is the complete end to which Banque de France tends, and we are pleased that other banks represented here agree with us to admit this superiority” (Conversations from 1 to 7 July 1927 in New York and Washington between Strong, Norman, Schacht and Rist).

3.8 La valeur de l’or

Among the papers of Quesnay of the late 1927, we find a file entitled “La valeur de l’or et le Gold Exchange Standard - Etudes générales - Correspondance avec la Federal Reserve Bank et la Banque d’Angleterre (postérieure à 1927)” (The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England). It is the attempt to rationalize his own monetary views, which he progressively made the Banque de France views. In the first versions of the paper, he develops a synthesis of a commodity conception of money and of a quantitative approach. He presents and uses Jevons and Sauerbeck indexes numbers to compare the decrease of prices in UK between 1826 and 1850 and the increased scarcity of gold during this period. Similarly, like other contemporaneous, he refers to the Kitchin series and justifies the increase of the prices between 1850 and 1873 by the discover of new mines. Quesnay then attributes the new decrease of prices between 1873 and 1896 to the generalization of the Gold Standard during the eighties and the nineties. The “struggle for gold that follows and its tendency to disseminate explains the movement of prices of the last years of the nineteen century.

With the same logic, Quesnay explains also the post-war inflation: the simultaneous move from Gold Standard to Gold Exchange Standard and from a the use of gold coins to their withdraw from circulation has changed the proportion of currency to gold: from 1919, the yellow metal is concentrated in the Central Banks reserves and “the power of a single central gold reserve is much higher than that of scattered resources. Consequently,
a volume of credit - and of money - much larger was generated on the basis of growing stocks of Central Banks” (The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England).

Other considerations are also devoted to the distribution of gold around the world. Two arguments dominate: (i) the free market for gold helps to distribute gold where Central Banks need it, and (ii) the war has concentrated more gold than optimal in the Federal System reserves. However, in this case, the arguments are not fully acceptable: when Quesnay writes this text, the inflows of gold from the Bank of England to Banque de France have begun in indirect form: the free market has played a role in this movement at a moment where the decrease of gold in the Bank of England reserves has clearly a deflationary and recessionist effect.

Quesnay ends up with a prospective analysis on the evolution of the uses of gold supposed able to predict the evolution of the monetary regimes backed on a commodity reserve. His predictions seem quite reasonable on the evolution of the production of gold-metal but look from our time although completely dated on the demand side. He then examines on another project of article the propositions of Fisher and Lehfeldt relative to the regulation of the value of gold. The project of Lehfeldt tends to regulate the gold production by an international committee devoted to maintain a stable relation between the amount of gold reserves and the level of international prices by regulating extraction. The main objection of Quesnay is that there is no strict relation between the monetary expansion and the gold reserves.

Quesnay exposes and discusses also the older propositions of Fisher: the gold reserves could be monopolized by the governments and serve as a counterpart managed by them (and not by Central Banks) to the ,obey in circulation. Commenting Fisher proposition, Quesnay adopts then - even more clearly than in the Lehfeldt discussion - an extended version of quantity theory, arguing that, in these conditions, the level of prices will be regulated not by the amount of gold but by the amount of circulating means of payment. According Fisher proposition the gold content of each national currency would have to be adjusted month after month, according the level of prices and the amount of means of payment. Each national government has complementarity to adjust the level of its “gold certificates into circulation” in the opposite sense, then creating a stabilizing effect on credit and prices, and finally stabilizing the gold value of national currencies close to its long term level. Quesnay challenges Fisher solution in three respects: (i) it is hard to imagine an automatic link between the amount of means of payment and the gold reserves, even with the help of the gold certificates imagined by Fisher, (ii) an inflexible cooperation must be imagined between governments and Central Banks to maintain the system effective, and (iii) the only advantage of metallic systems is the long term permanence of the gold content of national currencies: “if the Society is able to accept the “compensated dollar”, it will as well be able to adopt a “fiat money”, without the useless disadvantages linked to a money unit expressed in a weight of gold varying according a predetermined principle” (4431, The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England).
Later, still in the summer 1927, but in the fourth part of the text devoted to the *Midland Bank Monthly Review*, Quesnay presents more distant conceptions concerning the presumed regulatory properties of Gold Exchange: “Since the war, the world has witnessed the entry into the U.S. tons of gold, without resulting in a comparable increase of the volume of credit. This shows much more clearly than could make a theoretical argument based on a pre-war reality, as the gold standard is not and has never been ‘automatic’, but that the movements of gold have never exercised their so called ‘normal’ effects without the consent of the Central Bank, consent that the Central Bank was and is always able to refuse” (4463-4464, *Le problème de la valeur de l’or - Projets nationaux et internationaux de stabilisation. Revue Mensuelle de la Midland Bank*, Juillet-Août 1927, The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England).

### 3.9 The money market

The Central Bank must control the money market: it is a recommendation of Strong that Quesnay integrates rapidly in his own objectives. In a note of October 1926, he deplores - as pointed out by Blancheton (2001, p. 389) - the weakness of the *Banque de France* on this market. “The Bank must obtain that, in the future, all new issue of notes will be realized on the money market, in a way that would imply that the Bank could at every moment withdraw these notes in case of need”.

Quesnay integrates rapidly the suggestions of Strong. With the agreement of Moreau and Rist, he makes a visit at the Bank of England in October 1926 to “learn the methods of intervention of the Bank of England on the money market” (Moreau, 1954, p. 129). Moreau does not seem himself convinced that these methods are important since he only mentions in the following paragraphs the news transmitted by Quesnay on the operation driven by the Bank of England and the Bank of Netherlands on the external exchange market. Moreau does not however seem immediately interested by the introduction of those new methods observed by Quesnay near the Bank of England. Nothing in his memories in late 1926 and early 1927 that could confirm that the Banque de France now uses open market practices.

In 1927, Strong reformulates his previous recommendations to use the Bons de la Défense Nationale as a may to initiate an open market policy: “as for the mobilization of the Bank’s claims on the government of which we often spoke about together, it is an innovation that still requires careful consideration” (4242, Moreau to Strong, June 2nd, 1927). Quesnay then clearly understands the interest of the open market mechanism and explains it in an article published in summer 1927. “A Central Bank has to techniques to control credit: the use of a discount rate policy and of open market interventions. Both affect the volume of available credit, which in turn, within certain limits, determines the

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9After Strong, Quesnay uses indeed Norman and Vissering as advocates of the necessity to hold a large amount of convertible currency before stabilizing. Moreau reports their opinion without any comments... but a few days after, writes that “M. Rist who is really obstinate, ask me, one time more, the authorization to constitute a currency reserve (Moreau, 1954, p. 134)
volume of credit. The effect of a change in discount rate is indirect, because the initiative belongs to the money market operators, all that can make the Central Bank in this regard is to discourage its customers to present assets for discount or encourage them to do so, as appropriate. However, the open market policy is the initiative of the Central Bank [...] It follows that the second of these two measures is much more powerful because not only it can be used regardless of the official rate of discount, but it is likely to offset completely, and even do more, the effects of change in the rate of discount” (4443, "Le problème de la valeur de l’or - Projets nationaux et internationaux de stabilisation”. Revue Mensuelle de la Midland Bank, July-August 1927, The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England). Quesnay quotes at this moment a recent study analyzing the main Central Banks management practices and concludes that “the open market policy contribute[s] to regulate the available amount of liquidity, as it concerns the balance of member banks near Central Bank (ibid).

Finally, only one week before the official stabilization date, Moreau himself seems having integrated the mechanism: “I had a long talk with MM. Leclerc, Rist, Strohl and Quesnay on the ways to make the bank able both to play its monetary role and to regulate the credit market [...] One could, for instance, endow the bank with a portfolio of negotiable bonds, such as the old Russian bonds taken in charge by la Caisse d’Amortissement, which, following the necessity, could be offered to the public or withdrawn from the circulation” (Moreau, 1954, p. 585). As the other major Central Banks, the Banque de France will adopt an open market policy to control the money market.

4 Pierre Quesnay, nationalisms and internationalism

The Banque de France episode is for Quesnay a moment of nationalism inserted between two longer moments of internationalism, corresponding respectively to his previous positions at League of Nations, and his future (and last) charge as first Director of the Bank if International Settlements. As early as he is in charge as Banque de France adviser, its previous internationalist visions however move in a clever form of nationalism. The first rival is the Bank of England which in the mid twenties extends its influence among continental Central Banks. Immediately, Quesnay conceives the European cooperation of Central Banks as a way to create or regenerate another network of Central Bankers, with the French Banque de France “money doctors” as advisers.

Initially, Quesnay imagines a sort of come-back to the Latin Union regulation principles. In 1926, he conceives something like the future Ecu (or Euro) that could be adopted jointly by many European countries. The system should consist in creating a joint currency - Quesnay proposes to label it the ecu (without capital-letter) with different rates of conversion of the Belgian franc, the French franc and the Italian lira in ecu, all stabilized independently and a different depreciated levels. “When each country will have substitute their old inconvertible currency by the new gold-ecu, they will have the same gold-standard: the gold-ecu of 0.25 grams” (2628, Méthodes de retour à la monnaie-or dans un régime de papier-monnaie in Travaux du comités experts).
project is in reality highly unrealistic: Belgium tries to stabilize before the partners, Italy progressively isolates in the Mussolinian megalomania, Romania is not yet convinced of the necessity to stabilize... and will never be applied. Quesnay then renounces to propose a joint currency to the European partners of France and imagine with Rist to adapt the method of stabilization to the country where they are able to intervene. With different teams and methods, they will intervene in Spain, Romania, Poland, Turkey among others, even when Moret succeeds to Moreau as Banque de France governor.

Even when the internationalism of Quesnay is motivated by the strict strategic interest of France and French franc, Quesnay is really convinced that, in order to be successful, monetary stabilization should imply an international monetary cooperation but also convergent monetary and financial reform in the more developed European economies. More than other, his previous SDN position at Vienna helped him to understand that international monetary system has strongly evolved after the Grande Guerre: Gold reserves are no more located in Great Britain but in the Federal Reserve System and Gold movements no longer regulate credit creation, which is now over the responsibility of Central Banks’ control. The concentration of gold reserves in the Federal Reserve System balance sheet, associated to the commercial leadership of the US, makes the US price level a reference for the price level of the European economies. After the 1919 crisis, US Central Bankers and their advisers/statisticians learn new ways to control the exchange and money market, then price level and activity. It is this style of discretionary policy that Quesnay, then other French “money doctors” try to adapt to the European context in the late twenties and the early thirties.

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